
Family Finances in the U.S.: Recent Evidence From the Survey of Consumer Finances

Between 1992 and 1995, changes in family finances were influenced by various macroeconomic events and long-term trends. The period was one of continuing economic expansion: the unemployment rate in 1995 was down to 5.6 percent (from 7.6 percent in 1992); inflation was subdued at an average annual rate of 2.7 percent; and interest rates on new conventional mortgages were 7.6 (from 9.7 percent in 1992).

Family finances were affected by a growth of holdings in stocks and mutual funds; the number of mutual funds available to families continued to expand. Also, employers increasingly offered tax-deferred savings plans that allowed participants to invest in corporate equities. Growth in credit card holding was made possible by extensive marketing, relaxation of credit standards, lower interest rates, and cash rebate programs.

A key demographic trend was the aging of the post World War II cohort. The proportion of families headed by persons between 45 and 54 years of age rose from 16.2 percent in 1992 to 17.8 percent in 1995. Financial decisions of these families are likely to be influenced by the cost of college education for their children and the need to save for their own retirement.

Data from the 1995 Survey of Consumer Finances (SCF) provide a detailed view of changes in the income, net worth, assets, and liabilities of families between 1992 and 1995. Major findings were (1) the rise in median family income and median family net worth in constant dollars; (2) increased ownership of publicly traded stock (and mutual funds) from about 34 percent of total financial assets in 1992 to about 40 percent in 1995; and (3) little evidence of increased debt payment problems—even though the share of families with debt and the median amount of their debt rose.

Family Income

Median and mean family income reported in 1995 (for the previous year) was higher than in 1992, but not as high as in 1989. Between the 1989 and 1995 surveys, median and mean income declined for families headed by persons in the 35 to 54 age groups. Median and mean income also declined for all educational groups, with the largest declines for the groups with at least some college education. Median income rose somewhat for non-White and Hispanic families, but fell for other families. Gains in median and mean income were limited to the group with net worth between \$25,000 and \$49,999.

Family Saving

Overall, the proportion of families reporting that they saved in the preceding year fell from 57 percent in 1992 to 55 percent in 1995. However, a somewhat higher proportion of families with heads ages 75 and over were savers in 1995 than in 1992. The most common reason for saving given in 1995 was to increase liquidity (33 percent), followed by saving

for retirement (24 percent). Between 1989 and 1995, families became progressively more likely to report saving for retirement—perhaps reflecting the rising share of baby boom families in the population as well as the perceived uncertainty of future retirement benefits. Saving for education also continued to rise, a trend that is likely related to demographic shifts and continuing increases in the cost of a college education.

Net Worth

After falling between 1989 and 1992, both median and mean net worth rose from 1992 to 1995 (see table). Median net worth increased by 6.8 percent and mean net worth increased by 2.7 percent from 1992 to 1995. Generally, a rise in median net worth that is larger than a rise in the mean suggests relatively less growth for wealthy families than for families in the middle of the wealth distribution.

Between 1992 and 1995, median net worth rose for groups with incomes of less than \$25,000. Mean net worth rose for all groups except those with income between \$25,000 and \$49,999. From 1992 to 1995, median net worth increased for families with heads less than age 55, while the mean for each of these groups held steady or declined. For families with heads ages 65 to 74, median net worth decreased slightly while mean net worth increased. The data within each year show net worth rising with the level of education of the family head, but between 1992 and 1995, both median and mean net worth rose markedly only for the groups with a high school diploma or less.

Family net worth, by selected characteristics of families, 1989, 1992, and 1995
(thousands of 1995 dollars except as noted)

Family characteristics	1989			1992			1995		
	Median	Mean	Percentage of families	Median	Mean	Percentage of families	Median	Mean	Percentage of families
All families	56.5	216.7	100.0	52.8	200.5	100.0	56.4	205.9	100.0
Income (1995 dollars) ¹									
Less than \$10,000	1.6	26.1	15.4	3.3	30.9	15.5	4.8	45.6	16.0
\$10,000 - \$24,999	25.6	77.9	24.3	28.2	71.2	27.8	30.0	74.6	26.5
\$25,000 - \$49,999	56.0	121.8	30.3	54.8	124.4	29.5	54.9	119.3	31.1
\$50,000 - \$99,999	128.1	229.5	22.3	121.2	240.8	20.0	121.1	256.0	20.2
\$100,000 and more	474.7	1372.9	7.7	506.1	1283.6	7.1	485.9	1465.2	6.1
Age of head (years)									
Less than 35	9.2	66.3	27.2	10.1	50.3	25.8	11.4	47.2	24.8
35 - 44	69.2	171.3	23.4	46.0	144.3	22.8	48.5	144.5	23.2
45 - 54	114.0	338.9	14.4	83.4	287.8	16.2	90.5	277.8	17.8
55 - 64	110.5	334.4	13.9	122.5	358.6	13.2	110.8	356.2	12.5
65 - 74	88.4	336.8	12.0	105.8	308.3	12.6	104.1	331.6	11.9
75 and more	83.2	250.8	9.0	92.8	231.0	9.4	95.0	276.0	9.8
Education of head									
No high school diploma	28.5	92.1	24.3	21.6	75.8	20.4	26.3	87.2	19.0
High school diploma	43.4	134.4	32.1	41.4	120.6	29.9	50.0	138.2	31.6
Some college	56.4	213.8	15.1	62.6	185.4	17.7	43.2	186.6	19.0
College degree	132.1	416.9	28.5	103.1	363.3	31.9	104.1	361.8	30.5
Race or ethnicity of head									
White non-Hispanic	84.7	261.4	75.1	71.7	237.8	75.1	73.9	244.0	77.5
Non-White or Hispanic	6.8	82.1	24.9	16.9	87.9	24.9	16.5	74.4	22.5
Current work status of head									
Professional, managerial	106.6	262.7	16.9	78.8	248.5	16.8	89.3	252.8	15.9
Technical, sales, clerical	40.9	98.9	13.4	48.0	105.4	14.8	43.3	109.3	14.9
Precision production	58.4	94.2	9.6	38.4	85.5	7.0	43.5	79.3	8.2
Machine operators and laborers	23.1	67.2	10.6	23.5	56.8	10.0	37.3	70.0	13.1
Service occupations	9.3	53.2	6.6	15.7	52.9	6.2	15.8	60.0	6.6
Self-employed	200.7	765.4	11.2	155.6	644.3	10.9	152.9	731.5	9.7
Retired	77.5	199.2	25.0	76.3	201.2	26.0	81.6	218.3	25.0
Other not working	0.7	62.9	6.7	5.5	68.5	8.2	4.5	60.4	6.5
Housing status									
Owner	119.9	311.7	63.8	106.1	289.6	63.9	102.3	295.4	64.7
Renter or other	2.4	49.4	36.2	3.6	42.7	36.1	4.5	42.2	35.3

¹For the calendar year preceding the survey.

Source: Kennickell, A.B., Starr-McCluer, M., and Sunden, A.E., 1997, *Family finances in the U.S.: Recent evidence from the Survey of Consumer Finances*, Federal Reserve Bulletin 83(1):1-24.

Median net worth decreased for homeowners over the 6-year period, whereas it increased for renters. In 1995, mean net worth for both groups remained below 1989 levels. The results for homeowners do not appear to be driven by shifts in the level of home values, which generally rose over the period. Possible explanations could be the influx of new homeowners, an increase in the proportion of homeowners with mortgages, and a rise in the amount of mortgage debt owed.

Financial Assets

The share of financial assets in families' total asset holdings has risen steadily, from 28 percent in 1989 to 31 percent in 1992 to 34 percent in 1995. Substantial shifts in the composition of financial assets from 1992 to 1995 generally continued trends observed from 1989 to 1992. The share of financial assets held in transaction accounts and certificates of deposit, the traditional savings vehicles, fell sharply, from 30 percent in 1989 to 26 percent in 1991 to only 19 percent in 1995. At the same time, the share held in tax-deferred retirement accounts, publicly traded stocks, and mutual funds rose strongly, from 38 percent in 1989 to 49 percent in 1992 to 56 percent in 1995.

Although the proportion of families having at least some financial assets rose only slightly (from 90 percent in 1992 to 91 percent in 1995), ownership increased more among families earning less than \$10,000 a year, among non-White and Hispanic families, and among families headed by precision production workers or machine operators and laborers. Overall, median financial assets rose slightly; this gain was shared by most demographic groups except families with heads aged 65 and older.

Survey data for 1995 indicate continued expansion in the ownership of mutual funds of all types (not including money market funds and funds held as part of a retirement account). The median value of these holdings also continued upward. These changes are not surprising given the run-up in the stock market, the surge in the number of mutual funds available, and the intense marketing of funds.

The ownership rate rose among non-Hispanic Whites but remained unchanged for other families. Ownership rates increased the most in families with income over \$50,000 and in families with heads between ages 45 and 54. Median holdings for those owning mutual funds show a different picture, however, with older families and families at both the top and bottom of the income distribution showing the largest increases. A decrease in median holdings was reported by non-White or Hispanic families, while non-Hispanic Whites had higher holdings.

The percentage of families with retirement accounts grew in almost every demographic group between 1992 and 1995. The SCF questions on retirement accounts cover Keogh accounts; individual retirement accounts; and employer-sponsored plans from which loans or withdrawals can be made, such as 401(k) accounts. The proportion of families owning these assets rose strongly (from 38 percent in 1992 to 43 percent in 1995), and the share of families' financial assets accounted for by retirement assets also rose. These assets complicate straightforward interpretation of families' portfolios because they may comprise holdings of stocks, bonds, mutual funds, real estate, limited partnerships, or virtually any other type of asset.

In general, coverage by any type of employer-sponsored pension plan remained fairly constant over 1989-95: around 40 percent of all families had coverage from a current job. However, the type of coverage has shifted considerably. The percentage of families participating in a 401(k)-type plan increased dramatically over the period, with 19 percent of families covered under such a plan in 1989 and 27 percent in 1995. At the same time, coverage by defined-benefit plans declined from 28 percent in 1989 to 19 percent in 1995. The shift toward 401(k)-type plans places a more obvious demand on workers to plan for their retirement. Participation in 401(k)-type plans is voluntary. According to the 1995 SCF, slightly more than one-fourth of family heads who were eligible to participate in such a plan failed to do so in 1995. The data indicated this choice is related strongly to income: heads of families with incomes of less than \$25,000 were less likely to participate than others.

Nonfinancial Assets

The primary residence remained the largest single part of families' nonfinancial assets. Between 1992 and 1995, home ownership moved up slightly to 65 percent. The median home value (of the primary residence) among homeowners showed a similar pattern increasing from \$86,800 in 1992 to \$90,000 in 1995. For the different demographic groups, changes in ownership rates were mixed. For owners, the median house value generally rose for families with incomes of less than \$100,000 and fell somewhat for higher income families. This difference may partly reflect low rates of price appreciation for more expensive houses.

Ownership of vehicles fell somewhat from 1992 (86 percent) to 1995 (84 percent), but these items remained the most widely held nonfinancial assets. The decline in ownership was spread over most of the demographic groups, although ownership rose for families with incomes of less than \$10,000. A part of the decrease in the percentage of families owning vehicles may be attributed to an increase in the percentage leasing vehicles, which rose from 3 percent in 1992 to about 5 percent in 1995. Most of the increase was concentrated among families with incomes of \$25,000 or more.

Overall, ownership of investment real estate fell from slightly over 19 to slightly less than 18 percent of all families from 1992 to 1995. The fraction of families owning business assets fell slightly between 1992 and 1995. For the remaining nonfinancial assets (a broad category of tangible assets including artwork, jewelry, precious metals, and antiques), ownership rates rose from 8 to 9 percent between 1992 and 1995, while the median amounts for those holding such assets rose from \$7,600 to \$10,000. The median value of these assets rose more among older (65 years and over) and lower income (less than \$25,000) families.

Liabilities

Family debt and family assets rose strongly from 1989 to 1995. However, family debt as a proportion of assets (the leverage ratio) held fairly steady at about 16 percent over the period. The proportion of families with debt rose slightly between 1992 and 1995 (from 74 to 75 percent). Following a similar pattern, the median amount of debt out

standing for families with debt rose 15 percent from 1992 (\$19,500) to 1995 (\$22,500) after having been flat over the previous 3 years. The increases between 1992 and 1995 in both the prevalence of borrowing and the median amount of debt owed would normally be expected in a period of economic expansion. The increases were widespread among demographic groups, with the salient exceptions of families in the highest income group, families with self-employed heads, and families with heads 75 years old or older.

The prevalence of debt tends to increase with family income, but the sizes of the increases are fairly small as the level of income rises above \$25,000. The median amount of debt owed shows much larger increases with income, likely because of borrowing associated with the acquisition of nonfinancial assets. By age group, the proportion of families borrowing varies only a little for the groups with heads younger than 55, but it falls off quickly after that. The drop-off in median borrowing in these older groups is even sharper. The age pattern is largely explained by the paying off of mortgages on primary residences.

The proportion of families borrowing through mortgage loans in 1995 was up slightly from the 1989 level, but the median amount outstanding rose about 30 percent over the 6-year period. Over the same period, the median value of a primary residence rose only 4.8 percent; the much larger rise in the size of mortgage debt suggests that families were using more of their home equity for purchases or investments other than the purchase of their primary residence. Since the Tax Reform Act of 1986, which phased out the deductibility of

non-mortgage debt, loans secured by home equity have increasingly served as a source of tax-preferred funds.

The share of credit card debt also expanded between 1992 and 1995, but it remained a small part of total family debt. Offsetting this increase was a strong decline in the share of borrowing for investment real estate.

Two indicators of potential financial distress are the share of families with debt who have payments exceeding 40 percent of their income and the share who were late with their payments by 60 days or more at least once in the preceding year. The 1992-95 period saw little change in the proportion of highly indebted families (that is, those with payments exceeding 40 percent of their income), but the proportion of debtors who were late payers rose nearly 1 percentage point.

Source: Kennickell, A.B., Starr-McCluer, M., and Sunden, A.E. 1997. Family finances in the U.S.: Recent evidence from the Survey of Consumer Finances. *Federal Reserve Bulletin* 83(1):1-24.

